

May 1, 2005

HONORABLE MAYOR AND CITY COUNCIL:

In preparing the 2005-2006 Proposed Operating Budget for the City of San José, the Administration faced a fourth year of budget reductions — an unprecedented challenge made more daunting by the lack of evidence that an economic recovery is approaching. The regional economic decline that began in early 2001 has sustained itself far longer and with greater severity than predicted. The unavoidable truth now is that budget decisions made in the current environment must be viewed in the context of an enduring fiscal problem with little sign of relief in the near future.

As we enter the fourth year of declining budgets, it is extraordinary that to date the organization has been able to avoid more serious reductions. We have effectively managed our way through the most sustained and challenging funding shortfall in recent memory — far worse than the early ‘90s. At the foundation of that continuing effort has been the conservative fiscal policies to which the City Council has committed itself and the organization. Building on this foundation, our employees have responded by partnering with the City Administration to help keep costs down. Every non-public safety bargaining unit joined the City’s management team this fiscal year in foregoing pay increases to lighten the impact of funding shortages.

Because San José is a City that has built a well-earned reputation for high quality service delivery, the most difficult decisions we face are those that result in the negative impact to those services. There is not one service that we provide, for which there is not a committed constituency that relies on them. In this Proposed Operating Budget, the City Council will find a series of difficult choices. In recent years, we have bridged our deficits by trimming rather than eliminating services. We have asked our employees to be more productive and our managers to be more creative, so that our residents would be spared more serious impacts. In this 2005-2006 Proposed Operating Budget, these are severe and unavoidable service reductions. The strategic use of one-time dollars to bridge funding gaps in ongoing programs has been maximized. A freeze in all but the most essential hiring — an approach that preserves vacancies to avoid lay-offs when services are reduced or eliminated — has the effect of reducing our ability to deliver the services. Yet this strategy, too, has been maximized.

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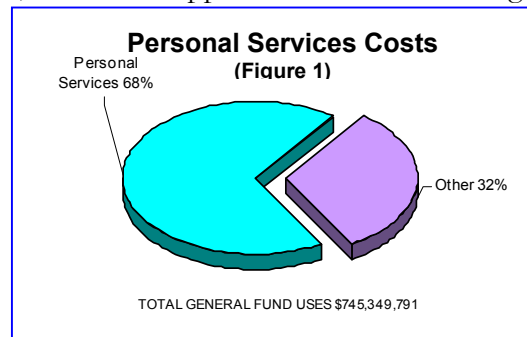
Despite the fiscal challenges, the recommendations in this Proposed Operating Budget focus on City Council priorities, directing resources toward essential services, basic infrastructure requirements, economic development opportunities, and maintaining the City's strong commitment to neighborhoods. City Service Areas (CSAs) continue to focus resources on core functions, ensuring the ability to continue providing high quality services even as we reduce services provided. Efforts to restructure how we deliver services to ensure that we use our resources as effectively as possible are more prominent than ever. Finally, in an effort to ensure cost recovery, some fee increases are proposed.

As in years past, reductions are divided between Tier One proposals consisting of recommendations to be implemented immediately and Tier Two proposals that would be implemented only if revenues decrease or expenditures increase beyond those assumed in this current proposal. The 2005-2006 Proposed Operating Budget addresses another revenue reduction caused by State action. In this case we are in the 2nd year of the agreement worked out between the State and local governments under which the State takes another \$11.1 million of our local property tax dollars. However, with the passage of Proposition 1A on the November 2004 ballot, future revenue reductions imposed by the State have been restricted, reducing this ongoing threat to the City's long term revenue picture.

Similar to last year, new cost control strategies and operational adjustments were implemented to reduce the scale of service reductions that would be required to balance the 2005-2006 Operating Budget. Once again, Tier Two waits in the wings, a set of much more severe reductions that would be necessary to pay for any expenditure increases that result from arbitration or negotiated settlement with our Public Safety bargaining units. The *2005-2006 Compensation Impact Contingency Plan* can be found in a separate section toward the back of this document.

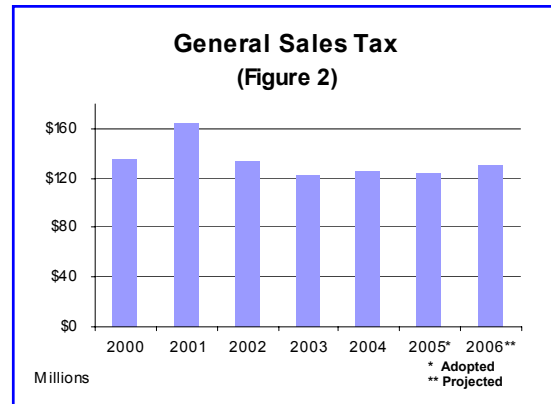
With each year of continued budget reductions, certain strategies become less effective. While we have continued the current hiring freeze to maintain vacancies and reduce expenditures, fewer of these vacancies are in positions that match to the skills of displaced employees. We are again recommending the use of one-time funding and reserves, but these opportunities are dwindling. Also unlike previous years when we successfully trimmed programs to soften the community impact, visible service reductions would result from this proposed budget.

Unfortunately, San José continues to confront a structural fiscal problem in the General Fund. Expenditures exceed revenues by a significant amount. As the Personal Services Costs chart shows (Figure 1) more than 2/3rds of these costs (68% in 2005-2006) are directly tied to personnel costs. With financial forecasts for the local economy continuing to display few signs of improvement, the 2005-2006 Proposed Operating Budget assumes that there will be only minor growth in economically sensitive revenue sources next year. A number of expenditure management actions implemented in past years have continued. Total General Fund revenue projections in the 2004–2005 Operating Budget were \$656.2 million, and for 2005–2006 current projections place the base budget revenues number at \$640.9 million (not counting revenue generating recommendations included in the 2005-2006 General Fund balancing strategy). While the full significance of the economic downturn is detailed in the *General Fund Balancing Strategy Detail*

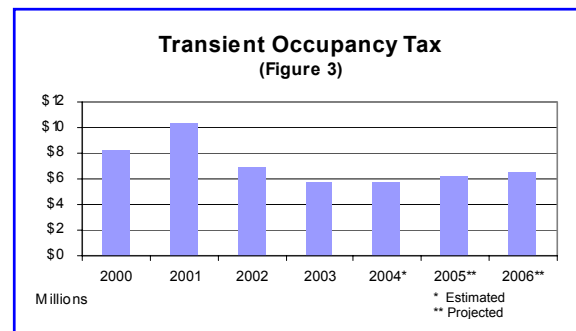


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(Attachment A), some noteworthy trends are highlighted here. If there is any good news on the horizon, it is that the deterioration in our revenues appears to have leveled off — an indication that while a recovery is not yet in sight, the downward slide has apparently bottomed out. For the first time in four years, some economically sensitive revenue sources are above our projections. Sales tax revenue (Figure 2) is showing a small increase, as is Transient Occupancy Tax (Figure 3), which is tied to revenue from local hotel bookings. TOT revenues were projected to grow by 2% to \$5.8 million, but are now projected to reach \$6.2 million—the result of an increase in the number of hotel rooms in San José and an increase in the number of room nights sold. Occupancy rates at local hotels, however, remain well below peak levels.



It is significant that San José has continued to receive a strong AA+ bond rating through the sustained downturn. Our rating continues to be the highest of any major California city. This sound fiscal report card helps San José balance its budget by keeping the interest rates low when we borrow money. Recommendations within this proposed budget would draw down the City's reserve funds significantly. With the City Council's generally conservative fiscal policies in place, we believe this approach is both prudent and necessary. However, further reliance on the utilization of reserves must be resisted. The revenue estimates included in this budget presume that the local economy in 2005-2006 would show only minimal growth in our economically sensitive revenue sources. Although there are now stronger indications of a recovery at the State and national levels, clear signals of significant improvement in our local economy are not on the horizon. Until we see sustained growth in jobs, we are presuming that the local economy would remain stagnant and our revenue growth relatively flat.



ECONOMIC OVERVIEW

A significant challenge in formulating the budget is projecting the future condition of the local economy. This has been a particularly difficult task given the mixed signals about the state of the economy. At the national level, what had appeared to be a recovering economy has shown inconsistent signs. The national economy is suffering from the effects of excessively large increases in oil prices combined with rising interest rates and stagnant wages for most workers. As a result, as reported by the Consumer Conference Board, consumer confidence since January 2005 has been steadily declining, with three straight down months reported through April. Investors are also increasingly nervous. The Dow Jones Industrial Average is down 5% since the beginning of the calendar year, and the NASDAQ is down 11%

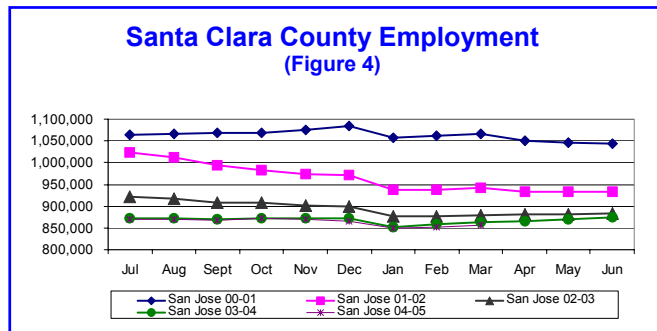
Locally, we have received some encouraging news regarding our Sales Tax. The latest quarter receipts (October through December sales activity) experienced the largest increase in over three years, up 9.1% from the prior year level. The City's Sales Tax consultants, MBIA MuniServices,

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however, urge caution. A significant portion of this increase is related to a one-time correction for use tax on a large construction project that had previously been allocated to the Countywide Pool instead of directly to San José. Taking this adjustment into account, recent quarterly Sales Tax receipts would represent positive growth of 3.0%.

Job Losses and Unemployment

As we have reported consistently, by far the most reliable indicator of future economic growth would be found in signs that our local companies are creating new jobs. Unfortunately, that is not the case. Growth in jobs in the county remains non-existent (Figure 4). Since 2000, the loss of local jobs in Santa Clara County has risen to 227,200 jobs. The most recent jobs reports continue to provide mixed news. The March employment report indicated that although local area jobs actually increased slightly (5,200 jobs), the comparison over the past year (from March 2004) still shows a net loss of 6,000 jobs. Also, the gains in March were mostly seasonal increases in the leisure and hospitality areas. Scott Anderson, Wells Fargo senior economist, puts the local jobs reports into perspective, saying, “San Jose is still the weak spot in the State. California’s employment growth is running at about 1.9% year over year. San Jose isn’t even close to that. It isn’t even close to what’s happening in the East Bay where you’re seeing job growth close to 1%.”



The local unemployment rate was 5.8% in March, down from a revised 6.3% in February, but still above the State average (5.7%) and the national average (5.4%). Many businesses in the valley are starting to see their profits rise, but they are doing it without hiring new staff. With oil prices continuing at high levels, consumer confidence waning, and continuing fluctuation in the stock market, the prospect for firms to start hiring do not appear to be very high. Although we are still experiencing year-over-year job losses, they are lower than the past and some months are actually showing gains, albeit small ones, that hopefully portend better things to come. In the near-term, however, there is no sign of an imminent increase in hiring patterns over the next twelve to eighteen months, and we still have a lot of ground to make up when the job growth finally appears.

In summary, the economic situation remains stable, but with no indication of significant improvement. Local job growth projections continue to be dismal, steadily rising gasoline prices threaten to impact consumer spending, and there is growing concern that the warnings that California housing prices are unsustainable would prove to be accurate. As a result, the 2005-2006 General Fund revenue estimates have presumed flat or slight growth in key City revenues.

State Budget Problems

The State of California continues to face significant budget problems. With the passage of proposition 1A, the State impact on the City has become a little more predictable, but no less severe in the near term. The largest State impact for 2005-2006 is once again the \$11.1 million required payment to the State that the City must make for the second year in a row. This is San José’s

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portion of the \$1.3 billion cities were required to pay to the State in both 2004-2005 and 2005-2006 in return for the State's support of Proposition 1A. Other State action implemented last year continues to affect the City's cash flow and earnings. Under these actions, cash receipts that the City received monthly in the past will now be received twice a year, resulting in lower overall average cash balances. The lower average cash balances would almost certainly result in lower investment earnings for the City.

The City is also impacted by past State actions related to reimbursements for state-mandated programs. In budget actions last year, the State Legislature continued the reimbursement received for the booking fees paid to the County for 2004-2005. However, they eliminated this reimbursement starting in 2005-2006 and limited the amount counties could charge cities for booking fees to one-half of their administrative costs. The elimination of the reimbursement would reduce City revenue by \$2.5 million in 2005-2006. It is still unclear whether there would be a commensurate reduction in the administrative costs that the County would attempt to impose on the City. Should the costs as determined by the County exceed half of last year's costs (as suggested in recent conversations with them) additional reductions to the Proposed Budget would be required.

BUDGET OVERVIEW

In the 2005–2006 Proposed Operating Budget, the total net proposed funding is \$2,348,811,078 for all City funds (General, Special, and Capital). This is \$346,663,772 or 12.9% lower than the current 2004–2005 Adopted Operating Budget (Table 1 below). The total number of positions is decreased by approximately 2.5%, to a total of 6,620 —the third year of significant position reductions.

2005–2006 PROPOSED BUDGET — ALL FUNDS (Table 1)			
	2004–2005 Adopted	2005–2006 Proposed	% Change
General Fund	\$ 812,528,785	\$ 745,349,791	(8.3%)
Special Funds	\$ 1,275,401,267	\$ 1,221,708,242	(4.2%)
<Less: Operating Transfers>	(\$ 616,705,061)	(\$ 556,635,867)	(9.7%)
Net Operating Funds	\$ 1,471,224,991	\$ 1,410,422,166	(4.1%)
Capital Funds	\$ 1,230,129,859	\$ 945,564,912	(23.1%)
<Less: Capital Transfers>	(\$ 5,880,000)	(\$ 7,176,000)	22.0%
Net Capital Funds	\$ 1,224,249,859	\$ 938,388,912	(23.3%)
Net Total	\$ 2,695,474,850	\$ 2,348,811,078	(12.9%)

The General Fund portion of the City's Budget would decrease by 8.3% from 2004–2005, and totals \$ 745,349,791. As always in the Proposed Budget, this is a somewhat misleading figure. Because the proposed budget is prepared two months before the end of the fiscal year, the numbers above do not include the additional funds that would be re-budgeted to complete multi-year projects.

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Budget Balancing Strategies

The reduction proposals contained in this recommended budget must be viewed in the context of cuts already experienced by the organization. Since June 2003, we have overcome funding shortfalls totaling \$173.3 million dollars. In June 2003, the General Fund gap was \$81.3 million with an additional \$10.8 million caused by State budget decisions added two months later. Last year's challenge began with a \$69.8 million shortfall that was closed in June, followed by another \$11.4 million in October to close the shortfall caused primarily by the first of two annual payments to the State.

Our earliest projections for 2005-2006 included a \$60.3 million shortfall more than half of which (\$31.7 million) resulted from the use of one-time dollars to balance the 2004-2005 Operating Budget. As we enter the fourth straight year of severe funding gaps, cost management controls that once seemed extraordinary are now integrated into the day-to-day operation of the City. As is clear from the savings achieved to date, these strategies have succeeded in softening the impacts of service reductions to our residents and our employees. A hiring freeze first imposed in 2001 has continued. Under the freeze, each request to fill a position is reviewed by the Budget Director and a Deputy City Manager. Expenditure controls first instituted in February 2003 continued on travel, meals, marketing, technology and vehicle purchases. The Voluntary Furlough/Reduced Work Week Program continued to bring new savings totaling \$467,000.

In October, the City Administration directed CSAs to make additional current year expenditures reductions totaling \$5.2 million, which translated to a 1% reduction for Public Safety and a 2% reduction for all other CSAs. Those savings produced from these reductions were placed in reserve and are proposed to be utilized as part of the 2005-2006 balancing strategy. In February, the Five-Year Forecast showed a slightly improved picture, leading to a reduced shortfall in the 2005-2006 General Fund of \$56.9 million. Further refinement of revenue and expenditure projections resulted in a final General Fund shortfall in this Proposed Budget of \$58 million. With the continuing freeze on non-sworn hiring and the elimination of vacancies, the accumulated vacancy total currently stands at 465, down from 578 at this time last year. As was the case last year, the strategic use of reserves is recommended as a part of the balancing solution. As directed by the City Council in approving the Mayor's Budget Message, the Economic Uncertainty Reserve of \$10.4 million is used to lower the budget shortfall projected for 2005-2006.

In developing the 2005-2006 Proposed Operating Budget, the Administration once again has focused City resources on vital core services and Council priorities. Each CSA including Public Safety was required to propose reductions and revenue enhancements. In Tier One, CSA reductions averaged 8.2% for the non-Public Safety CSAs, yielding approximately \$22.5 million. In recognition of the City Council's commitment to maintaining public safety as it's top priority, the Public Safety CSA reductions were kept to 1.5% yielding \$4.8 million in savings. With the bulk of Tier One reductions falling outside Public Safety, the inevitable result is that Public Safety reductions make up the largest component in the Tier Two *Compensation Impact Contingency Plan*.

In preparing the 2005-2006 Proposed Operating Budget, the Administration was guided by the 15 principles presented in the City Manager's Budget Request, and adopted by the Council in the Mayor's Budget Message. These are:

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Budget Balancing Principles (Table 2)

I. Balanced Budget

1. Balance the City's ability and capacity to continue providing essential services to the community, revive the economy, build strong neighborhoods, and stabilize the City's budget.
2. Mitigate to the extent possible direct service reductions by utilizing a combination of ongoing expenditure reductions and ongoing revenue sources, coupled with one-time expenditure cuts, one-time revenues, and/or a portion of the reserves designated for budget balancing purposes.
3. In addition to strategies that achieve efficiencies and appropriate cost savings, utilize fee increases to assure that operating costs are fully covered by fee revenue. Revisit the fees and charges structure to implement revisions that would charge non-residents a premium for our services and discourage "abusers" of services.
4. Explore opportunities to establish new fees for services where appropriate.
5. Continue with the elements of the current capital improvement plan that keeps money flowing to our economy. In addition, however, bring forward recommendations for further deferral of capital improvement program schedules for projects that create negative impacts on the General Fund.

II. Satisfied Customers

6. Defer consideration of any new program commitments and initiatives, unless those program commitments stimulate the local economy and job creation and/or are funded through redeployment of existing resources and/or until economic recovery occurs.
7. Focus on protecting vital core City services. Focus service reductions first in those areas that are least essential.
8. Emphasize quality over quantity: do fewer things as required, but do them well.
9. Consider alternative service delivery mechanisms (e.g., appropriate community partnerships, public-private partnerships, working with other jurisdictions to ensure no service overlap, outsourcing/insourcing services delivered by City staff, etc.).
10. Emphasize performance by focusing on improving employee productivity and continuously improving business practices, including streamlining, innovating, and simplifying City operations.

III. Engaged Employees

11. Continue to make employee involvement a priority for CSA budget balancing idea development.
12. Ensure that an active budget communication plan with City employees is in place and utilized.
13. Balance proposed reductions across the organization and employee groups, including a careful review of all non-essential overtime and non-personal/equipment expenses.
14. Make every effort to eliminate vacant positions, rather than filled positions.
15. Work together with employee bargaining groups to find ways to limit the number of employee layoffs.

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The resulting 2005-2006 Proposed Operating Budget recommends a combination of ongoing cost reductions, prudent fee increases, and the strategic use of reserves and one-time revenues. Although on the revenue side, a search for new revenue sources or significant opportunities to recover costs through fees has produced limited new funds, the use of reserves and other one-time revenue sources accounted for well over half of the total balancing actions. The table below shows the matrix of Tier One balancing strategies and the dollars associated with each action.

Tier One General Fund Budget Balancing Plan (Table 3)	
SOURCE OF FUNDS	(In \$000s)
2005-2006 Future Deficit Reserve (one-time)	12,541
Cardroom Revenue (one-time)	8,500
Economic Uncertainty Reserve (one-time)	10,436
Enhanced Park Maintenance Reserve	1,000
Business Tax Amnesty	1,000
Transfer from Other Funds	2,000
Miscellaneous	6,609
Total Revenue & Reserve Solutions	42,086
USE OF FUNDS	
Position Eliminations/Efficiencies	(11,075)
Non-Personal/Equipment Reductions	(5,327)
Funding Shifts	(2,119)
Mayor, City Council and Appointees	(1,982)
Use of Reserves (Committed Adds)	(7,704)
Workers' Compensation Claims	(6,500)
New Facilities (Operations & Maintenance)	7,644
Salary Reserve	5,000
Miscellaneous	6,097
Total Expenditure Solutions	(15,966)
Total Balancing Solutions	58,052

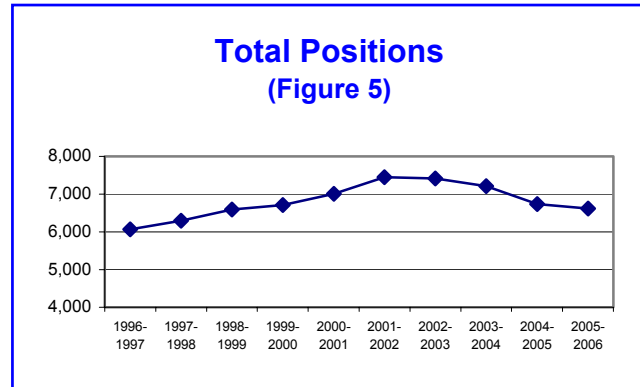
The Full-Time Equivalent position (FTEs) reductions contained in this proposed budget action are shown below:

Position (FTE) Reduction Impacts (Table 4)	
Tier	FTEs Impacted*
Tier One	139.7
Tier Two	332.6
Total	472.3

**FTEs include both vacant and filled positions.*

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The proposed reductions affect all levels of the organization from management to front line workers and affect every CSA. These position reductions equal service reductions and represent difficult choices. Examples include a reduction in library hours, downsizing parks maintenance, and reductions in the Traffic CIP, landscape and pavement maintenance, traffic device maintenance, and City-reimbursed sidewalk repairs. In Public Safety, several specialized programs would be reduced or eliminated to maintain the core functions of the department. In short, there are no good or easy choices this year. As Figure 5 demonstrates, the reductions imposed on the organization since 2002, have combined to reduce the City's total position count significantly, from the 2003-2004 Adopted Budget level of 7,213 down to 6,620 (a net reduction of 593) roughly equivalent to the number of positions in 1998-1999.



Similar to last year's budget proposal, the 2005-2006 Proposed Operating Budget is balanced with assumptions about things that have yet to occur, but which once again could have significant impacts on this proposal even after the City Council approves the final budget recommendations in June. Chief among these is the possibility of unanticipated compensation increases for our Public Safety employees whose contracts expired in February 2004. These employees have the right to binding arbitration. Because Public Safety represents 66% of the General Fund personal services, a 1% salary increase for sworn personnel would cost the City \$2.7 million annually. Consistent with the Council-approved Mayor's March Budget Message, reductions contained in the *Compensation Impact Contingency Plan* are not recommended for implementation at this time. However, a review of this list makes it clear that these reductions would fall most heavily on the Public Safety CSA — the inevitable result of having held back the more serious Public Safety reductions in the Tier One recommendations.

Fee & Rate Increases

In 2004-2005, a three-year effort to reach cost recovery in the development services process through phased fee increases in the Development Fee Programs (Planning, Building, Public Works and Fire) paid off with increased financial stability and improved performance. When the popularity of last year's enhanced service options required additional staff to maintain customer service standards, funding was available to add two Plan Check Engineers in Building only because the program was at cost recovery. In response to industry groups support for the transition to cost recovery, the City committed: 1) that there would be no fee increases in 2005-2006; and, 2) that a Cost of Development Survey would be undertaken. In keeping with these commitments, no across the board development fee increases are proposed with the exception of a cost recovery adjustment to the Fire Department's hourly rate. Instead, the development partners would use a combination of resource cuts and reserve funds to offset anticipated increases in operating and regulatory costs. Fee increases would, however, need to be considered in 2006-2007 to avoid reductions in service. The first annual South Bay Area Cost of Development Survey was published in June 2004 and concluded that San José's development costs rank in the middle to lower end when compared to six other local jurisdictions on five sample projects. The 2004-05 survey results would be released later this month.

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In the Environmental & Utilities Services area, a number of fee increases are proposed. Recommended utility rate increases would cover cost-of-living adjustments and improve neighborhood services. The first year of a proposed three-year rate increase strategy would raise Storm Sewer Charge rates by 4.5%, amounting to approximately \$2 more annually for a single-family home. This would provide funding to meet regulatory requirements, operate the storm sewer system, and maintain a modest capital improvement program.

The second year of a three-year strategy initiated last year of 4.5% annual rate increases is proposed for Sewer Service and Use Charge fees to address aging infrastructure needs, improve reliability in wet weather at the treatment plant, cover increased costs to operate and maintain the sewage collection and treatment systems, and ensure the fiscal integrity of the Sewer Service and Use Charge Fund. This would amount to an increase of \$10.68 annually for single-family homes.

A modest rate increase of 2.6% is proposed for the Municipal Water System for 2005-2006 to provide funding for required maintenance and operations. This is the first general rate increase for Muni Water since 1992. More recent rate increases have been limited to covering the increased costs of purchasing wholesale water from San Francisco and the Valley Water District. The Muni Water increase would amount to \$10.80 annually for the average residential household. The new rates would remain lower than those charged by the two private water retailers that serve San José.

To recover contractual cost-of-living increases, primarily due to soaring fuel costs, it is proposed that the 2005-2006 rates for Recycle Plus be increased by 3% for single-family homes (SFD) and 2% for multi-family complexes (MFD). This would be the first year of a three-year rate increase strategy proposing maximum rate increases of up to 5%. Both SFD and MFD rates would remain below the County average compared to other cities with similar garbage collection services. The proposed SFD rate for the average household (32 gallon cart) would increase by \$7.20 annually in 2005-2006.

City Service Areas

Careful readers would note that the City Manager's Budget Message uses new names for the City Services Areas, the structure within which our workforce and departments are organized. To strengthen and clarify reporting relationships between the CSAs and the City Manager's Office, CSA names will be changed in 2005-2006. With the exception of Transportation and Aviation Services, which will combine these previously separate CSAs, the change represents not so much a reorganization as a recognition that new names could more accurately reflect the work that is being accomplished by the partner departments within each CSA. The new CSA names will be: 1) Community and Economic Development; 2) Environmental and Utility Services; 3) Neighborhood Services; 4) Public Safety; 5) Strategic Support; and, 6) Transportation and Airport Services. Within the 2005-2006 Proposed Operating Budget, the new CSA names are used in this message as a means of introducing the coming changes. However, for continuity with previous budgets, the current CSA names are maintained throughout the rest of the document.

Community and Economic Development (Economic and Neighborhood Development)

With the flat local economy constraining the City's ability to deliver services, it is appropriate that the recommendations for the Community and Economic Development CSA emphasize aggressive implementation of the City's Economic Development Strategy. The following initiatives focus on priorities identified by the City Council:

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- Attract and retain retail business to provide San José residents with more convenient services and help overcome San José's high retail leakage to other communities;
- Communicate a compelling community identity to raise the image of San José as a destination;
- Facilitate job and revenue generating company expansions and relocations to provide the City with a competitive edge as the local economy begins to recover;
- Encourage sporting teams, events and facilities to bring additional tourism money to San José; and
- Expand efforts on Council priorities - museum/cultural growth, interface with San José State University, attraction and retention of businesses, and diversification of the economic base.

The proposed addition of four temporary positions using one-time resources addresses several Economic Development initiatives. They will assist in: 1) raising the image of San José as a destination; 2) attracting additional retail business; 3) increasing tourism money by encouraging sporting teams, events and facilities to locate in San José; and, 4) supporting development facilitation. It is believed these positions will generate additional revenue to justify their continuation on a permanent basis. A decision on whether to recommend continuation of these positions will be made as part of next year's budget process.

As directed by the City Council, local small business chambers of commerce and the Convention and Visitors Bureau support would be reduced by 8.2%, matching the average reduction of all General Fund non-Public Safety CSAs. In addition, City's contribution to the Arena Authority would be cut by \$49,000, while its asset management responsibilities would be broadened to include other facilities, which drive local economic activity. Oversight of the Authority would be moved to the Office of Economic Development.

The Silicon Valley Workforce Investment Network (SVWIN) program will experience a \$1.1 million reduction in federal funds this year. The program would continue to offer universal services to its clients, however, services that address the needs of workers displaced by companies that downsize would be reduced. While downsizing has been a significant issue in the past few years, the rate of job eliminations is flattening out.

Under proposals in the area of code enforcement, over 90% of the Community Code Enforcement inspection staff will be supported by special funding sources (CDBG, Redevelopment and Solid Waste and Multiple Housing fees). General Code Enforcement activities would shift from proactive enforcement to a more reactive model redirecting efforts toward life safety complaints and conditions. This reduction would save \$278,000. Code Enforcement's "Driveway Team", a proactive enforcement unit will continue to reduce blight within SNI areas.

Several balancing strategies are reflected in this budget, including staffing reductions and redeployments that will effectively mean a reduction in service within the Special Projects and SNI teams in the Planning Services Division. Land use and planning actions to further the goals of the adopted SNI plans and specific plans will be undertaken. The proposed addition of a Planner to review urban runoff regulations would address the increased demands of implementing storm water permit provisions for new and redevelopment projects.

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Neighborhood Services (Recreation and Cultural Services)

The Neighborhood Services CSA strives to serve, foster, and strengthen community by providing access to lifelong learning and opportunities for enjoyment. Partnerships have always existed among the City, its partners who serve the neighborhoods, and the communities that make up our neighborhoods. Strategies to maintain programs in the face of significant reductions require collaboration, partnership, leveraging resources and building community capacity for self-reliance. Where service reductions occur we have tried to ensure that, although the quantity of programs may be reduced, the quality of our remaining programs is sustained.

With a work force already reduced last year by 252 positions, the Neighborhood Services CSA has carefully assessed priorities and made difficult choices in recommending service reductions. Over the next two years we anticipate that we will be able to support only critical core services that preserve and provide clean and safe parks, provide a safe environment for youth and seniors, and protect the public infrastructure. Meeting these core service needs will require program consolidation, service adjustments, greater reliance on cost recovery, and community-based organizational support and neighborhood civic engagement.

The 2005-2006 proposed budget recommends a reduction of \$6.2 million and elimination of 61 positions in the partner departments. The Library continues to provide services to promote reading, adult and family literacy, lifelong learning and school readiness at all library facilities. As proposed, hours at branch libraries would be reduced from 51 to 47 by opening branches for five hours on Sundays but closing them on Mondays (currently open 9 hours). Each branch would also have one day a week where it provides reduced service levels (either Wednesday or Thursday). On the reduced service level day, customers would be referred to the nearest full-service branch for assistance. This proposal would eliminate six fulltime positions and the equivalent of 2.73 part time positions distributed as reduced hours among eleven filled part-time employees. The six fulltime positions proposed for elimination are currently vacant or expected to be vacant by the start of 2005-2006. This recommendation achieves a savings of \$812,000. The proposal would also reduce service point coverage hours provided in children's, teen and adult services, reference, and language/media areas at the Dr. Martin Luther King, Jr. Library.

The City currently operates 42 community, satellite, and neighborhood centers with a staff of 75. During the coming year five new community centers will open. Because the current economic environment constrains the City's ability to add staff, the new centers can only be operated with employees from older facilities that would be closed. Staff is developing a Re-Use Plan to identify alternative programming options for these older facilities. Under this proposal approximately half of our community centers would be considered for alternative programming possibilities. Community-based organizations would be recruited through a competitive process in order to provide neighborhood and community services. In some cases, Parks Maintenance could work out of these facilities. Only if no suitable tenant can be found would centers be considered for closure. This proposed consolidation and reduction in service would allow new and recently renovated facilities to open while generating nearly \$600,000 in operating savings to the City. The focus of programming that would be preserved would be on the critical core services that provide a safe environment for youth, seniors and disabled populations.

In the area of park maintenance, the City currently maintains more than 3,700 acres at 194 separate park sites. The annual cost to maintain 144 neighborhood parks is \$12.6 million. Our fiscal reality

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does not allow these costs to be sustained. Under this proposed cost reduction strategy, the number of days of park maintenance would be reduced, but park rangers and remaining maintenance staff would keep restrooms open on days when park maintenance does not occur. The current neighborhood park maintenance schedule would be reduced by two days, while regional park maintenance will drop to six days per week. In addition, watering cycles would be reduced and the Arena Green carousel would be closed. Staff will explore alternative strategies for operating and maintaining the carousel such as having a partner assume these responsibilities or identifying a corporate sponsor to underwrite the costs. In addition, fees would be increased at Happy Hollow Park and Zoo. To accommodate the new park facilities opening in 2005-2006, these reductions will be partially offset by the addition of \$629,000 in new funding for maintenance and operations. Even with the addition, this recommendation achieves budget reduction of 21.11 positions totaling \$1.49 million in savings.

Recommended program actions would reduce staffing levels in therapeutic services and the office on aging as well as aquatics, recreation, and the Neighborhood Development Center. Training, safety and youth employment would be consolidated. Staffing for the citywide theatre would be eliminated but parents would be encouraged to form a non-profit operation to continue the program. Also proposed is initiation of an annual fee of \$25 for the City's summer drop-in programs, and a one-time reduction of \$100,000 in funding for the Future Teacher Loans. Together, these represent a total general fund savings of \$1.3 million and reduction of 22.16 positions. Other areas proposed for reduction include a one-time reduction in the art venture fund program and a reorganization that moves OCA to the Office of Economic Development that would eliminate a deputy director position while adding a senior analyst.

The Strong Neighborhoods Initiative (SNI) is the core of the City's efforts to ascertain neighborhood priorities, deliver effective neighborhood services, and develop effective community leadership and partnerships with residents. In 2005-06, there are no proposed staffing changes in the Strong Neighborhoods program. Since its inception through this fiscal year, 40 top ten priority projects have been completed and 111 more are underway. The City, the Redevelopment Agency and the community have invested \$111 million over this time period. In the coming fiscal year, staff will be working to better integrate those providing community policing with the Mayor's Anti-Graffiti Task Force, as well as staff in Code Enforcement, Housing, PRNS, and the City Attorney's office.

Finally, as directed by the City Council in approving the Mayor's March Budget Message, an 8.2% reduction (equal to the average of the reductions experienced by all of the City's non-Public Safety CSAs) will be applied to dollars that support our CBO partners. This will result in a savings of almost \$129,000.

Safe schools remain a high priority, and budget recommendations focus on creating program efficiencies to minimize impacts to school and community security. There will continue to be eight Safe Schools Campus Initiative response teams but vacancies will be eliminated to realize \$407,000 in savings. Teams would be housed in the community center "hubs" described above.

Though these are very difficult economic times and challenging budget decisions to make, the Neighborhood Services CSA has worked to creatively rethink City service delivery, build on and create new partnerships, and connect with residents and stakeholders to identify neighborhood priorities. We continue to develop and improve capacity citywide to enhance the receipt of grants

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and pursue revenue generation through corporate sponsorships. We believe the evolving model of service delivery provides a solid foundation to build on and improve the delivery of recreation and cultural services to our community when additional funding again becomes available.

Strategic Support

The consolidated Strategic Support CSA is made up of Employee Services, Retirement Services, Finance, Information Technology, General Services and Public Works. This CSA provides recruitment, training, purchasing, technology, revenue collections, facility and fleet maintenance services, maintenance of the organization's capital assets, administration of retirement benefits, and protects and invests the City's financial resources. These functions are critical to the ability of front-line departments to serve the community.

The capital program workload is expected to decrease for the second consecutive year. However, the City's unprecedented investment in capital projects in the last several years, made possible by three major voter-approved bond measures, coupled with the completion of the new City Hall, present a major resource challenge. The proposed budget eliminates 22 positions from the capital program, aligning resources with the reduced workload and producing \$1.85 million of savings. Maintenance of the new City Hall will be managed by a combination of new and existing positions. General Services positions from the existing City Hall will complement \$5.8 million in General Fund support, representing 26 new maintenance and security positions.

In this fourth consecutive year of reductions, it is becoming increasingly difficult to retain delivery of even basic core services at the desired level. The CSA has identified opportunities to reorganize and share services that minimize, to the extent possible, the service impacts of these continuing reductions. Under this recommendation, Finance will assume Employee Services' timekeeping, accounts receivable and accounts payable functions with the elimination of the single clerical position that provides these services for a \$97,000 savings. During 2005-2006, additional opportunities will be identified to implement additional shared services within the new City Hall.

In the Department of Information Technology, a vacant deputy director position would be eliminated, while a second deputy director position would be reallocated as an assistant director to provide stronger oversight of day-to-day departmental operations. This will save \$142,000. For most of the current fiscal year, the department has been under the stewardship of an Acting Director, who has identified a number of other opportunities for organizational improvements that will be presented to a new Chief Information Officer whose appointment will be announced soon.

In addition, the Strategic Support CSA will generate an estimated \$1 million in additional revenues by implementing a business tax amnesty program. It has been several years since the last program was undertaken, which yielded significant new on-going revenues to the General Fund. An ongoing \$6.5 million reduction to the General Fund appropriation for workers' compensation claims is proposed, reducing the fund from \$22 million to \$15.5 million. This reduction is possible due to lower than anticipated claims costs and recent changes in workers' compensation laws.

The City's vehicle replacement program will be impacted by a \$750,000 reduction in funds dedicated to the purchase of new vehicles. While the remaining \$1.75 million is expected to adequately meet the City's needs, a Tier 2 proposal would eliminate all vehicle replacement funding in 2005-2006.

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It is essential to upgrade existing technology to preserve the investment that the City has already made. To that end, the PeoplesSoft HR Payroll system will be upgraded at a cost of \$1.5 million. This will assure continued support to the automated payroll system and provide all the necessary upgrades to conform with federal and state regulatory changes.

Transportation and Aviation

The importance of coordinating the City's transportation and aviation services has been evidenced by initiatives such as the Coleman Avenue/Interstate 880 interchange, Highway 87, airport-area traffic surveillance and management and Guadalupe River trail planning. Beyond specific projects, however, the air and surface transportation services provided by the City of San José focus on similar outcomes. Fundamentally, each service strives to facilitate the movement of people and goods in a manner that both strengthens our economy and enhances quality of life for San José residents. For both surface and air transportation, pursuing these potentially competing goals requires a continual sensitivity to neighborhood impacts, and a commitment to mitigating such impacts.

Several areas have been identified for evaluation and development of coordinated initiatives between transportation and aviation:

- Integrating neighborhood presentation material and cross-training staff;
- Identifying additional in-sourcing opportunities;
- Reviewing inter-modal traveler support systems; and,
- Leveraging maintenance management practices.

Throughout the transition period, we will build on areas of synergy while maintaining distinctions where appropriate. The following sections summarize key issues and strategies for Surface Transportation and Air Transportation, respectively.

Surface Transportation — To continue to meet the basic needs of residents during this sustained economic downturn, the Surface Transportation recommendations for 2005-2006 include difficult tradeoffs between preventative maintenance, long-term pavement rehabilitation, planning, and technology-based programs.

Recommended priorities structure services around performance outcomes and services to minimize customer impacts and to focus on safety. Where possible, fees have been increased, and staffing levels have been reduced to correspond with the current levels of funding available for CIP programs and projects. In total, 22 positions will be eliminated as part of more than \$2.9 million in proposed reductions.

This will result in a decreased ability to perform preventive maintenance on pavement and landscaping, which will exacerbate conditions over the next several years until funding and staffing levels can be restored. Reductions in capital program funding, including system improvements for the street network, will require further realignment of staff. Other specific areas of expenditure reductions include transportation operations, traffic signal maintenance and neighborhood traffic services. A proposed reduction would eliminate one team (seven positions) from the Police

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Department Traffic Enforcement Unit, reducing staffing in that unit by 12%. This recommendation would impact response and investigation of non-fatal traffic accidents.

In the interest of improving pedestrian safety in San José, this budget proposes using capital funds to install countdown signals, red light enforcement devices and crosswalk enhancements at critical intersections throughout the City. Capital funds will also be used to replace incandescent traffic signal lamps at 400 intersections with energy efficient LED bulbs, saving the City an estimated \$290,000 annually. To assist with signal lamp retrofitting and the installation of pedestrian safety devices, two new capital-funded electrician positions will be created for one year.

While the 2005-2006 Proposed Operating Budget recommendations allow the CSA to continue targeted improvements to City transportation assets, residents will notice cuts in pavement maintenance and tree services. In addition, a 50 percent reduction in sidewalk repair grants is recommended. Cleaning of the downtown transit mall would also be cut in half, with remaining resources focused on high use areas. This reduction is expected to decrease the percentage of customers rating services as good or better from 78 percent in 2004-2005 to 45 percent in 2005-2006.

We remain hopeful that the federal transportation reauthorization will provide critically needed resources, but timing is uncertain. The State's continued reallocation of Proposition 42 funds exacerbates this funding shortfall. At the County level, a new sales tax measure proposal with allocation to cities provides some hope of additional funding for critically needed street maintenance. In addition, Strong Neighborhoods staff is looking at opportunities for federal grant funding for neighborhood transportation improvements identified as neighborhood priorities.

Air Transportation — The Norman Y. Mineta San José International Airport plays a pivotal role in the local and regional economy, and is a critical component of the City's Economic Development Strategy. San José's competitiveness as a global business center and travel destination is clearly linked to the City's ability to develop and operate a world-class airport. While our long-term goals for major facility improvements at the Airport remain a priority, the sustained economic downturn challenges our ability to realize the Airport's potential in the near term. Since September 11, 2001, the Airport has experienced a serious decline in passenger traffic to levels similar to 1998-1999, roughly a 22% drop from the 2000-2001 high of 13.9 million annual passengers. While passenger traffic has recently shown some indication of positive growth, only a modest increase is expected during 2005-2006.

The City is now embarking on construction of the new North Concourse. The North Concourse will provide the space needed to meet federal security requirements for the permanent installation of explosive detection equipment and for an automated in-line baggage screening system. These improvements will enhance customer service and reliable security processing while reducing ongoing costs for temporary facilities. The timing of future facility improvements, including the South Concourse and the Central Terminal, will need to be re-evaluated based on economic conditions in the years to come.

We are also investing in the airport's future through the recent acquisition of the FMC property, which provides additional parking, lease space, and off-airport construction areas.

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In 2005-2006, costs will be managed through \$3.2 million in strategic expenditure reductions. The savings are largely related to administrative reductions and service efficiencies, while allowing for targeted investments in key areas such as air service development and technology support. At the same time, we will continue to pursue enhanced customer amenities, such as concession improvements and development of a “cell phone lot” for motorists wishing to wait for a call from incoming passengers prior to moving to the curbside for pickup.

These strategies place demands on staff to be innovative and creative in meeting the needs of our customers so that they will continue to choose San José as their airport of choice. Cost management and control will continue to be a priority for the organization, and is vital so that the CSA can continue to be responsive to our customers, the community, and our partners. Customer service measures such as improved signage, interim facility modifications, and beautification of construction areas will help mitigate the disruption caused by aging infrastructure and intensive construction.

As noted above, business development resources will be focused on attracting new air service to complement the recent addition of San José’s newest airline, Independence Air, and expansion of the City’s incumbent air carriers. In an increasingly global business environment, the enhancement of air service to key trade centers, both domestic and international, is an important economic development objective.

Finally, the City’s commitment to operating the Airport as a good neighbor will continue. The Airport Neighborhood Services Group will continue to perform outreach in the community by providing information and receiving input on proposed development and operational changes at the Airport.

Capital Improvements — Investing in the City’s Infrastructure

Against the backdrop of sustained economic challenges for the region, the City’s Capital Improvement Program continues to bring significant improvements to San José. Over the first five years of the City’s *Decade of Investment*, nearly 800 projects have been completed, delivering roadway improvements, enhanced recreational and park facilities, new libraries, and improved public safety facilities. While these projects continue to enhance the quality of life for our residents, operating the new facilities continues to challenge the organization during tight fiscal times.

In 2005-2006, nearly 150 additional projects will be added to that list, including the new City Hall, four new libraries, five community centers, numerous park and trail improvements, fire station upgrades, several new traffic signals, and utility infrastructure improvements. Many other projects that support the City’s economic development goals are also underway. These include the Airport expansion, major roadway and traffic flow improvements, and the expansion of the Municipal Water and the Sanitary Sewer Systems into Edenvale and North Coyote Valley.

With the significant investment in the capital infrastructure, the 2005-2006 Proposed Capital Budget of \$945 million, which was released separately last week, represents 32.5% of the City’s total proposed budget. Over the next five years, capital investments are expected to total nearly \$1.9 billion. While both the one-year capital budget and the five year Capital Improvement Program (CIP) are smaller than those adopted last year (due primarily to the drop in the Airport Capital Program), this level of investment is substantial. Through the first half of the *Decade of Investment* the annual capital budgets have been near or over the \$1 billion mark, and the five-year CIPs have been

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in the multi-billion dollar range. Up until 1999-2000, the annual capital budgets were approximately one-quarter to one-half of the amounts budgeted in recent years.

In large part, the significant growth in the capital program results from the use of one-time funding sources that support particular efforts. For instance, voter-approved bond revenues are earmarked for parks, library or public safety purposes; the new City Hall is funded by lease revenue bonds limited to that project; and the Airport expansion is primarily funded by the issuance of debt that will be supported by Airport revenues.

Major Capital Investment Highlights

Mineta San José International Airport — Security projects remain the highest priority and the most significant of these projects is the North Concourse Building. The majority of the non-security related projects have been re-phased and will proceed based on market demand.

Parks, Libraries, and Public Safety Facilities — In 2000 and 2002, voters approved General Obligation Bond measures to support library projects (\$212 million), parks projects (\$228 million), and public safety facilities (\$159 million). Bond proceeds continue to fund new facilities as well as the upgrade and replacement of existing facilities. Over the next five years, a combined \$203.8 million is scheduled to be allocated from these sources.

Utility Infrastructure — Significant investments in the City's utility infrastructure are planned, including completion of the \$89 million Reliability Improvements project at the Water Pollution Control Plant, and the expansion of the water and sanitary sewer systems.

Identifying General Fund Resources to Address Operating Costs

The completion of so many capital projects in such a short time brings with it a major challenge — identifying the resources necessary to operate and maintain the new facilities. The General Fund operating costs for facilities included in the 2006-2010 CIP are estimated at \$3.1 million in 2006-2007.

In response to this challenge, the City Council has previously approved the deferral of a number of capital projects with significant General Fund operating impacts. In developing the 2006-2010 CIP, the Administration once again reviewed all projects scheduled for completion in the next few years to identify those that would create significant new operating costs. No additional deferrals are recommended.

In this and future operating budgets, a different type of strategy to mitigate the impact of maintenance costs associated with new facilities will be proposed. This involves taking a comprehensive look at all facilities to determine which could be considered for closure based on age or because they duplicate services found in the same geographical proximity.

The Public Safety program presents the most significant additional General Fund operating and maintenance costs with a potential price tag of \$10.2 million annually by 2009-2010. To mitigate these impacts, alternate staffing models or possible construction deferrals are currently under consideration. As directed by the City Council in its approval of the Mayor's March Budget Message,

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any changes to the Public Safety Bond program that result from this analysis will be brought forward to the City Council in the form of a Manager's Budget Addendum.

While no major new project deferrals have been identified to reduce operating and maintenance costs in the Proposed CIP, there are a number of other measures proposed, including moderate decreases in the size of facilities, the development of joint library/community center facilities, and the investment in technology that would reduce operating costs.

Environmental and Utility Services

Residential recycling and solid waste collection, neighborhood street sweeping, capture of stormwater runoff, and the collection and treatment of residential and commercial wastewater are the major services provided by the Environmental and Utility Services CSA. In addition, water service is provided to the high-tech and high-growth residential areas of San José. These programs protect the environment and support the City's economic development strategy. They assist the City's strong neighborhoods programs by: 1) funding neighborhood clean-ups; 2) enforcing parking restrictions to ensure streets are swept more thoroughly, 3) reducing localized ponding through storm pump station improvements and repairs to curbs and gutters; and, 4) helping to address other neighborhood priorities by scheduling storm and sanitary sewer work in tandem with other street improvements. While the economic downturn has had a relatively limited impact on revenues for this CSA when compared to those funded by General Fund dollars, stricter regulatory requirements and increased fuel cost for contractual service providers continue to affect the cost of delivering these programs. In addition, an aging utility infrastructure translates into increased maintenance, rehabilitation, and replacement costs.

Since the Environmental and Utilities CSA has been less directly affected by the economic downturn, it is recommended that this CSA continue to hold necessary positions vacant to provide opportunities for employees displaced from other CSAs.

A third of the storm sewer pump stations throughout San José are over 40 years old and require significant rehabilitation. Funding (\$500,000) would be used to replace or rehabilitate aging storm pump stations, reducing the risk of localized flooding in portions of the City. A \$500,000 increase to the Storm Capital Fund would support the City's Strong Neighborhood Initiative by allocating dollars for neighborhood storm drainage improvements to reduce localized ponding usually caused when stormwater pools due to raised or depressed curbs and gutters.

Another recommendation would expand neighborhood parking enforcement on street sweeping days by posting signs on an additional 40 miles in targeted areas at a cost of \$240,000. This would be the third year of a multi-year strategy to keep neighborhood streets cleaner and prevent debris from polluting local creeks by enabling street sweepers to clean more thoroughly along curbs. Three new stormwater pump stations (Rincon II, Highway 87 & Taylor, and Airport) will require funding for operation and maintenance in 2005-2006. Funding of \$236,209 is recommended to address these needs.

The Regional Water Quality Board is imposing new requirements on the City to prevent pollutants from entering into the storm sewer system from future large land developments. Funding of \$364,000 is recommended to add an Engineer in Environmental Services, a Planner II in Planning, Building and Code Enforcement, an Associate Engineer and 0.5 Program Manager in Public Works,

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and for data base improvements. These additions would be required to implement the changes imposed by the new National Pollutant Discharge Elimination System (NPDES) permit requirements. This work will be closely coordinated with the Community and Economic Development CSA.

Energy supply, reliability and costs continue to be a concern. As part of the Sustainable Energy Policy, San José continues to pursue energy efficiency in City operations, encourages renewable and clean energy use, and promotes energy efficiency in the community. The Silicon Valley Energy Partnership (SVEP), a collaborative between the City and PG&E, is proving to be highly successful at helping Silicon Valley businesses reduce their operating and maintenance energy costs. Through this program, more than 200 San José businesses will receive rebates for installing energy efficient equipment in the coming year.

This kind of regional partnering will be even more critical across this CSA's core services in the coming fiscal years, particularly in continuing to address issues related to land development, water supply availability, and watershed protection.

Public Safety

As noted earlier, no area of public service is more essential to the public welfare than public safety, and the services in this CSA remain the City's highest priority. That is why the reductions in the Public Safety CSA were limited to 1.5% of that CSA's budget while cuts in other CSAs averaged more than 8%. But the magnitude of the shortfall facing the City and the fact that this CSA represents 2/3rds of all General Fund personal services costs dictates that not even Public Safety can be immune to the need for cost-saving proposals. In 2004-2005 preserving essential emergency services was accomplished mainly through redeployments from non-emergency response resources, reductions in certain specialty units, and implementation of various cost-saving measures that had limited impact on high priority service delivery. For 2005-2006, resources will continue to be focused on providing essential emergency services in a timely manner. A collaborative effort between the Fire Department and Budget Office to address the longstanding overtime budget expenditure issue resulted in an adjustment of \$3.1 million to the Fire Department budget. Crime prevention programs are however proposed for elimination and reduction. A combination of recommended actions would result in the elimination of 33 positions and savings of about \$3 million.

Proposed reductions of \$2 million include the elimination of specialty programs such as Challenges and Choices, the Neighborhood Action and WATCH Programs, as well as consolidation of the West and East Truancy Abatement-Burglary Suppression Centers. The Public Safety CSA will meet with the Neighborhood Services CSA to develop joint solutions to providing crime prevention services.

A recommendation that would generate \$697,000 in savings would eliminate the hose wagon at Fire Station 6 and relocate a water tender from Station 2 to Station 16 where it would be centrally located in the east foothills wildland area. These changes would upgrade three fire fighter positions to fire engineer, and eliminate six more fire fighter positions. The individuals in the positions being eliminated would move into vacancies as relief fire fighters. In addition, the elimination of a dedicated Hazardous Incident Team Unit that was defunded in 2004-2005 Adopted Budget would generate savings and require an alternative deployment model for hazardous material response.

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Another proposed reduction would eliminate seven police investigator positions in property and narcotics crimes and one officer from the police Training Unit. These reductions would save \$832,000, but represent only a 3% reduction in the sworn staff in investigations. The Training Unit staff would continue to operate with 18 positions.

The CSA has initiated efforts towards consolidating grant-writing resources and will continue with efforts at exploring other opportunities to consolidate capital project management and public safety education functions. A one-time allocation (\$941,000) is proposed to fund the accreditation process for new Firefighter-Paramedic recruits. Increases in various police fees have been included to maintain cost recovery levels. The CSA is expected to continue to receive some administrative support funds from the Urban Area Security grant from the Federal government. These funds will continue to reimburse the cost of managing this grant program for the San Francisco Bay region in 2005-2006 so that the City's General Fund will not be used.

While the above Tier One recommendations are difficult to make and will be difficult to approve, it should be noted that with its 2005-2006 proposed funding level, the Public Safety CSA will:

- Continue to provide essential emergency services in a timely and effective fashion;
- Continue to meet EMS paramedic contractual requirements;
- Maintain investigation concentration on crimes against persons
- Maintain school liaison functions and protocols including SHARP & Safe Schools Initiative
- Continue to protect the health and safety of Public Safety personnel.
- Move forward with Bond projects that do not adversely affect operating expenditures.
- Continue to explore opportunities for public outreach and training to make residents more capable of maintaining their individual safety.
- Effectively investigate arson fires and aggressively pursue, apprehend, and prosecute suspects in these incidents.
- Continue to use grant funding to pursue inter-agency communications projects, in compliance with Department of Homeland Security directives.
- Continue to put San José in the forefront of Homeland Defense in Northern California by continued active participation in the FBI's Terrorist Task Force and strong linkage with Homeland Defense.


CONCLUSION

This 2005–2006 Proposed Operating Budget successfully closes a \$58 million dollar shortfall with a combination of ongoing reductions and the strategic use of reserves and one-time dollars. The number of filled positions that would be eliminated has been minimized by the continued hiring freeze that successfully accumulated a large contingent of vacancies. The coordinated efforts of every City Service Area identified opportunities to be more efficient while reducing costs. However, after four straight years of declining revenues, the decisions placed before the City Council are difficult ones that will be felt by our residents. That is the unavoidable reality of our current economic climate. With the one-time solutions recommended in this Proposed Operating Budget, we can anticipate beginning next year's exercise with a shortfall somewhere in the range of \$60,000,000.

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Given the unprecedented and enduring economic decline experienced over the past four years, the Administration believes the proposed mix of reductions, one-time solutions, and use of reserves represents a sound approach to balancing the budget. We have maintained our commitment to provide essential services, meet the City's basic infrastructure requirements, and keep the City Council's commitment to neighborhoods. This is a plan that continues the sound financial discipline that has allowed us to manage through the current economic downturn.

I want to express my appreciation to all of our dedicated City employees for their involvement and understanding, and to the City Labor Alliance, which has once again worked closely with the Administration as we moved through a very difficult budget season. I especially want to take note, again, of the thousands of employees who joined with the City's management team to forego raises this past year. And finally, I want to acknowledge the professionalism displayed by the City's Senior and Executive Staff, as well as the many other employees who made a direct contribution to the preparation and production of this document and to express my sincere appreciation for their hard work.


Del D. Borgsdorf
City Manager